

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 2/14/07

SPONSOR Beffort LAST UPDATED _____ HB _____

SHORT TITLE Health Insurance Purchase Tax Credit SB 871

ANALYST Francis

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|-------------|------|-------------------------|------------------|
| FY07 | FY08 | FY09 | | |
| | (\$4,200.0) | | Recurring | General Fund |
| | | | | |

(Parenthesis () Indicate Revenue Decreases)

Relates to SB723, SB869

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 871 provides a credit to low-income individuals for health insurance premiums. The credit is refundable meaning if the credit exceeds the taxpayer's liability, the excess is refunded to the taxpayer. The credit cannot be claimed by an individual who claimed the health insurance premium in their federal itemized deductions or on their state personal income tax return. The credit also cannot be claimed for premiums related to Medicaid or SCHIP.

For New Mexicans who can get insurance through work and live in a household that is below 100 percent of the poverty level, the credit is \$2,500 or 50 percent of the premium whichever is greater. If there employer-provided coverage is not an option and the household is below 200 percent of the poverty level, the credit is equal to the greater of \$2,500 or 50 percent of the premium.

There is no effective date so by default the effective date is June 15, 2007.

FISCAL IMPLICATIONS

This analysis was done without the benefit of Taxation and Revenue analysis. Their input may change the fiscal impact upward or downward.

There are approximately 113,000 employees not currently covered by health insurance provided through work and, according to 2005 tax return data, 19 percent, or 10,900 households, would be from households at or below 100 percent of the poverty level and another 10 percent or 11,600 between 100 and 200 percent. If 5 percent of those eligible were able to get insurance through this credit, the credit would cost 4.2 million. It's assumed that all of the tax filers will receive the full \$2,500 credit.

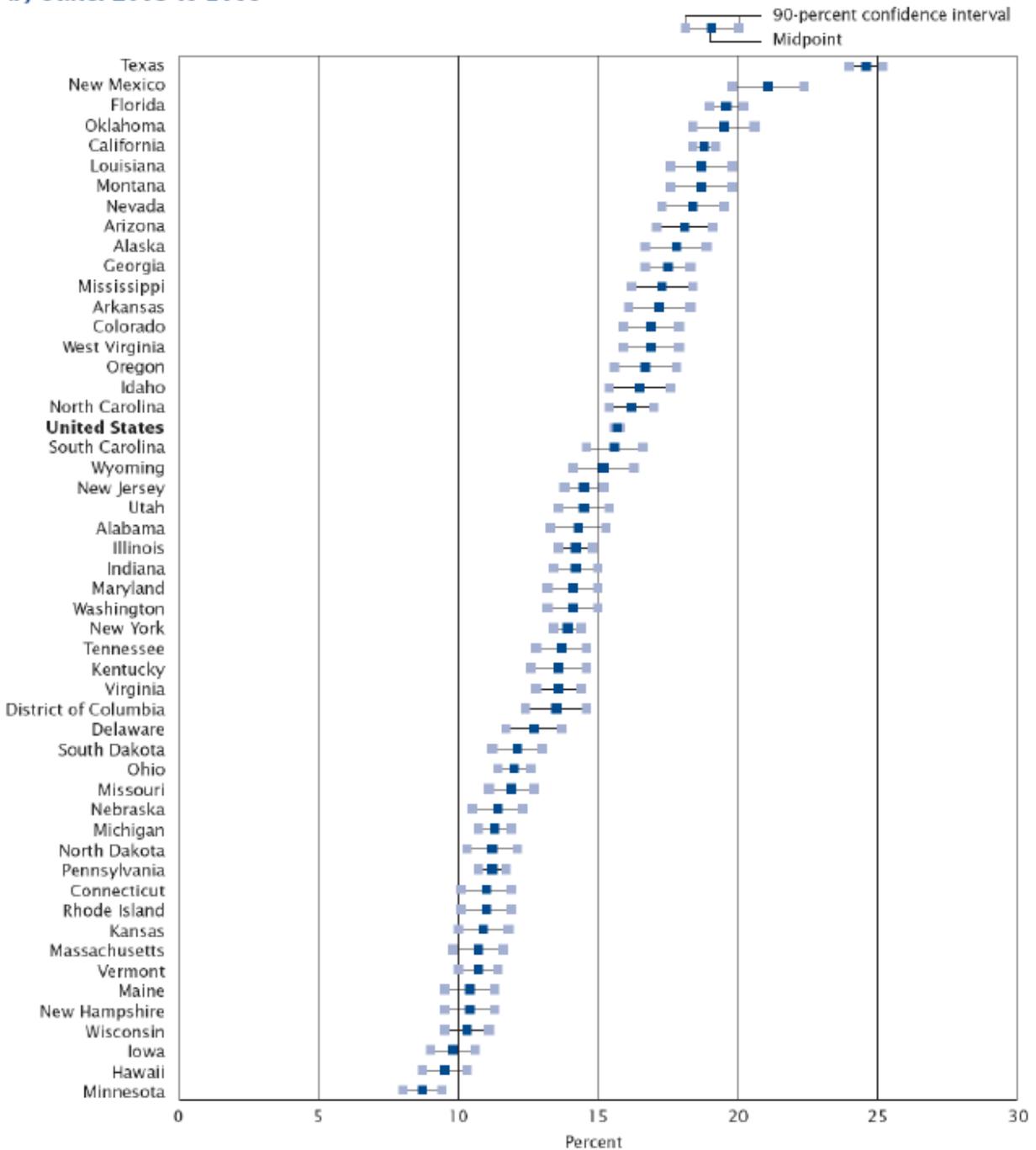
SIGNIFICANT ISSUES

Nationally, health insurance premiums grew tremendously over the last decade and though the rate of growth has slowed in the last two years, it remains near 10 percent. That compares with inflation at approximately 3 percent and the economy which is also growing at about 3 percent. As the premiums increase, the number of employers offering health insurance decreases. According to the Kaiser Family Foundation, which tracks a host of health related issues, the percentage of employers offering health insurance has dropped from 69 percent to 60 percent in the last few years.

In NM, affordable health insurance is more of a problem than nationally. The burden of providing health care access has shifted from the employer to the government, particularly for children whose parents cannot get health insurance at work. States have recently been trying to reverse that and one way is to offer tax incentives that encourage employers to provide access to health insurance. However, the cost of health insurance is still an insurmountable obstacle for many smaller businesses and if they provide it they have to pass on a significant share of the premium to the employee.

The importance of health care coverage in New Mexico cannot be understated. Other than Texas, no other state has a higher percentage of uninsured than New Mexico. The chart below shows the state rankings.

Three-Year Average Percentage of People Without Health Insurance Coverage by State: 2003 to 2005



Source: U.S. Census Bureau, Current Population Survey, 2004 to 2006 Annual Social and Economic Supplements.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 723 offers a similar credit but the credit is between 35 and 50 percent and the firm size threshold is 50 employees. Senate Bill 871 provides a credit for the purchase of health insurance by an individual.

NF/nt